

2Q24

# Las Vegas Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- U.S. retail sales are healthy but remain below their 20-year average. “Decent” but “not great” sales have implications for local industrial leasing activity.
- Loaded import volume at Southern California’s ports totaled 3.7 million containers in the first five months of 2024, up 17.0% from the same period in 2023.
- Ship attacks in the Red Sea, along with a potential strike by Gulf and East Coast dockworkers in the coming months, are causing more goods to be funneled in through western ports of entry, notably Los Angeles/Long Beach.
- Most of this rerouted cargo is being shipped eastward by rail to markets outside of Southern California. Goods that are “just passing through” have a negligible impact on local market dynamics.

## Major Transactions

- The lion’s share of leasing activity is occurring in the high-growth North Las Vegas submarket, which accounts for nearly 68.0% of the under-construction pipeline.
- Nearly 51% of the greater market’s leasing activity in the first half of 2024 came from Class A warehouses.
- W.P. Carey purchased 3-buildings (343,720 SF) for \$34.2 million in May from TPG Angelo Gordon.
- Sublease space will find bargain-hunting tenants: The greater market’s average sublease asking rent is \$0.87/SF/month NNN compared to \$1.16/SF for direct space.

## Leasing Market Fundamentals

- Total vacancy rose to 7.4%, up 370 bps from year-end 2023. Net absorption has lagged construction deliveries for three straight quarters.
- Available sublease space totals 1.4 MSF, representing 0.9% of existing inventory. This is still low relative to the market’s 1.7% high, reached in early 2010.
- Sublease space was flat this quarter thanks to a few blocks finding subtenants.
- Still-high inflation and more-restrained retail spending is prompting some occupiers to shed extra space to reduce overhead. Others are delaying their expansion plans.
- Leasing activity is slowing: Compare 4.7 MSF in the first half of 2024 with 6.6 MSF over the same period of 2023. This, coupled with the eventual delivery of 11.6 MSF in under-construction space (8.5% of which has pre-leased) will lead to further vacancy increases.

## Outlook

- Landlords will become more competitive to secure tenants through concession packages and/or lower rents.
- Sales activity will be slow for the rest of the year. This trend will progressively reverse course once the Fed enacts meaningful interest rate cuts; a minor reduction by December is the conservative forecast among economists.
- In Southern California: sublet availability is pronounced, vacancy is rising and rent growth is cooling. All favors tenants, which could slow relocations to lower-cost Southwest markets, such as Las Vegas and Phoenix.

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  2. Leasing Market Fundamentals
  3. Sales Activity
  4. Appendix



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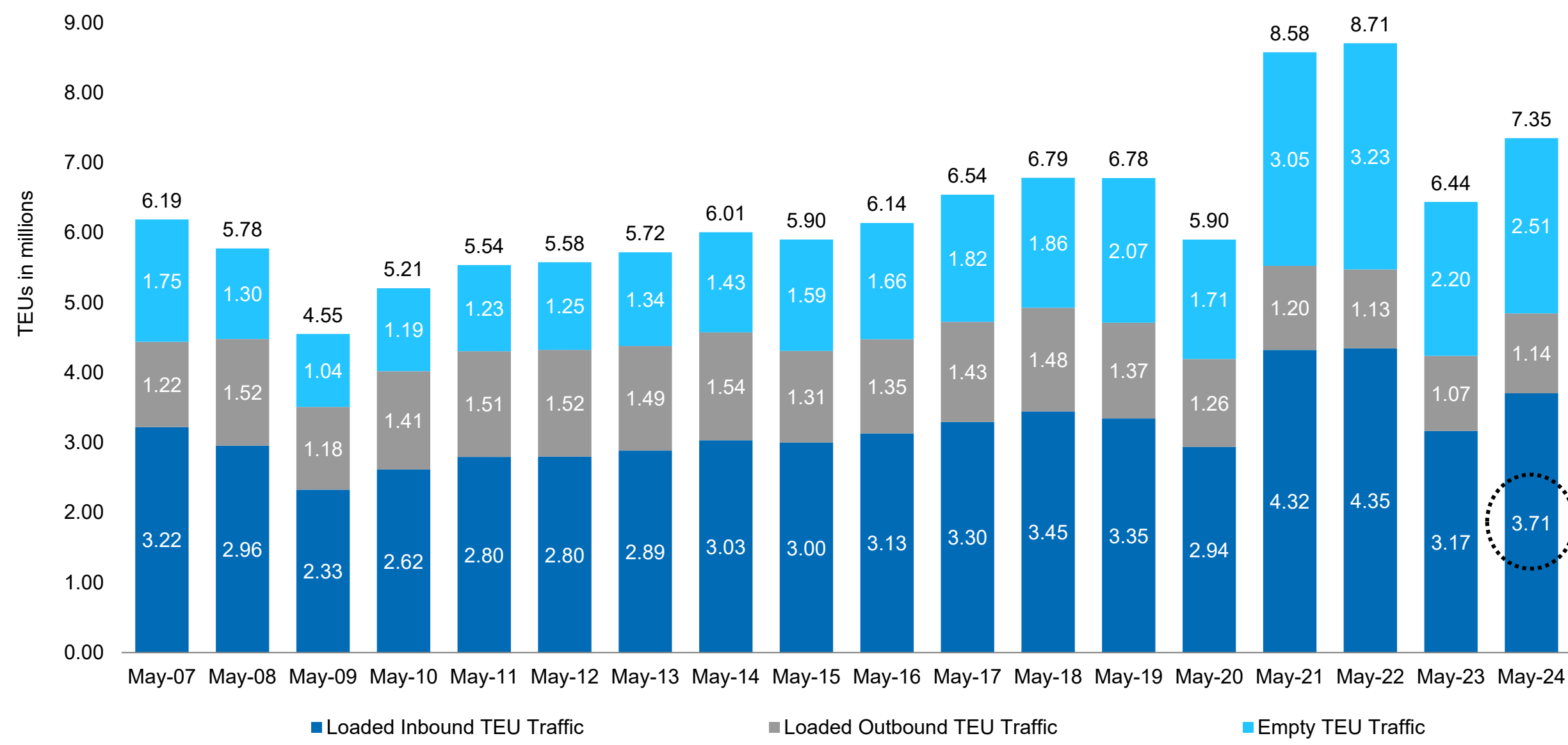
# Economy



# Loaded Imports in the First Five Months of 2024 Were Stronger Than the Same Periods in 2018 and 2019

2018 and 2019 ended up being healthy years before the exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Five Months of a Given Year



Source: Newmark Research, The Port of Long Beach and Los Angeles  
Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size.



# West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

The ILWU and PMA signed a new labor contract in September 2023, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports are currently negotiating their contract, which will expire at the end of September 2024. Import volume will shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

## West Coast Ports Agreement Reached...Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic is returning since stability is now less of a concern.



Source: Newmark Research, City of Los Angeles, The Real Deal

## East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.





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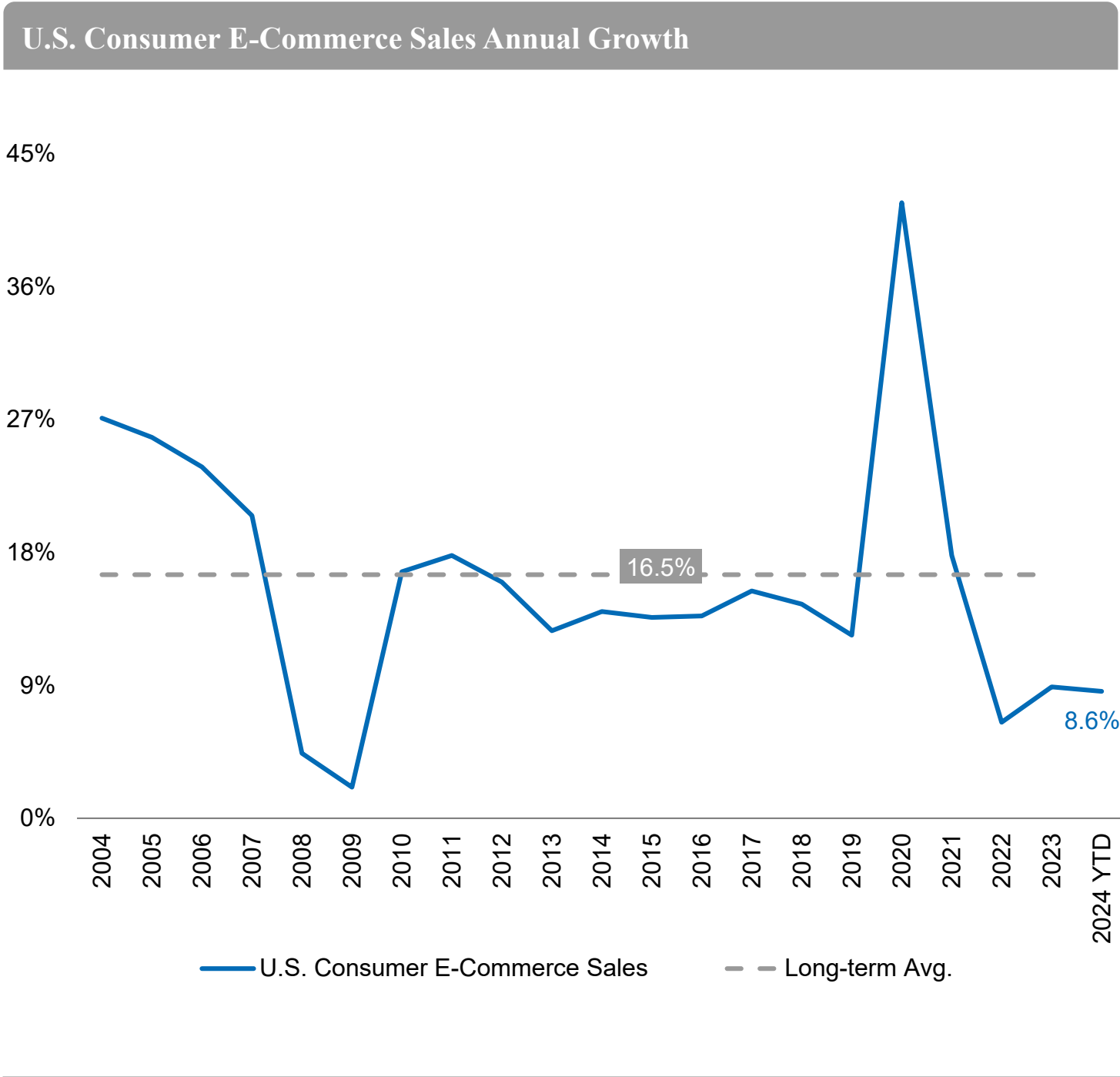
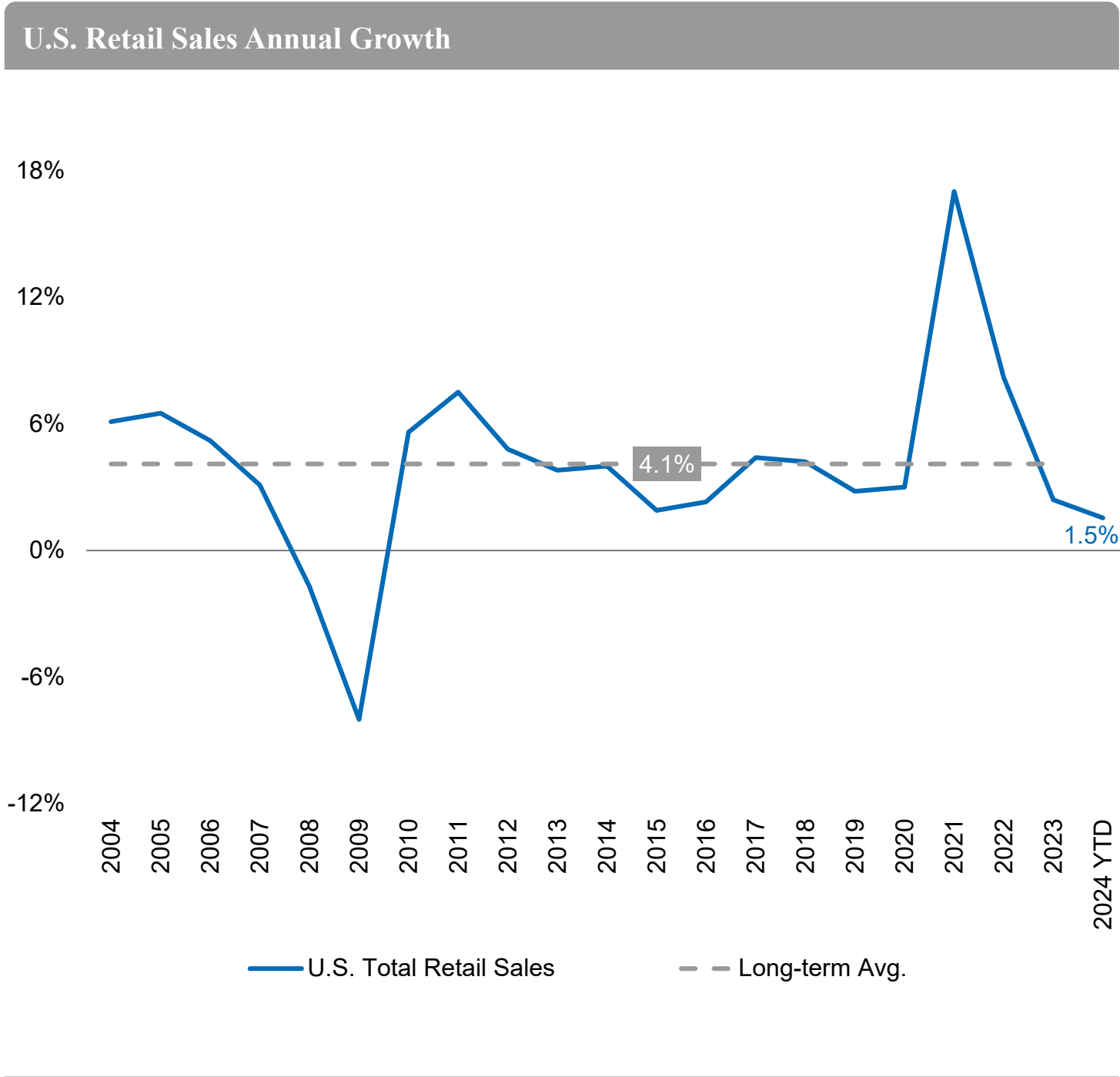
Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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# Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 8.6% in the first three months of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.5% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.



Source: US Census Bureau (consumer adjusted retail sales); most current data available  
Note: 2024 YTD annual growth represents sales in the first three months of 2023 vs. the same period in 2024.



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# The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates



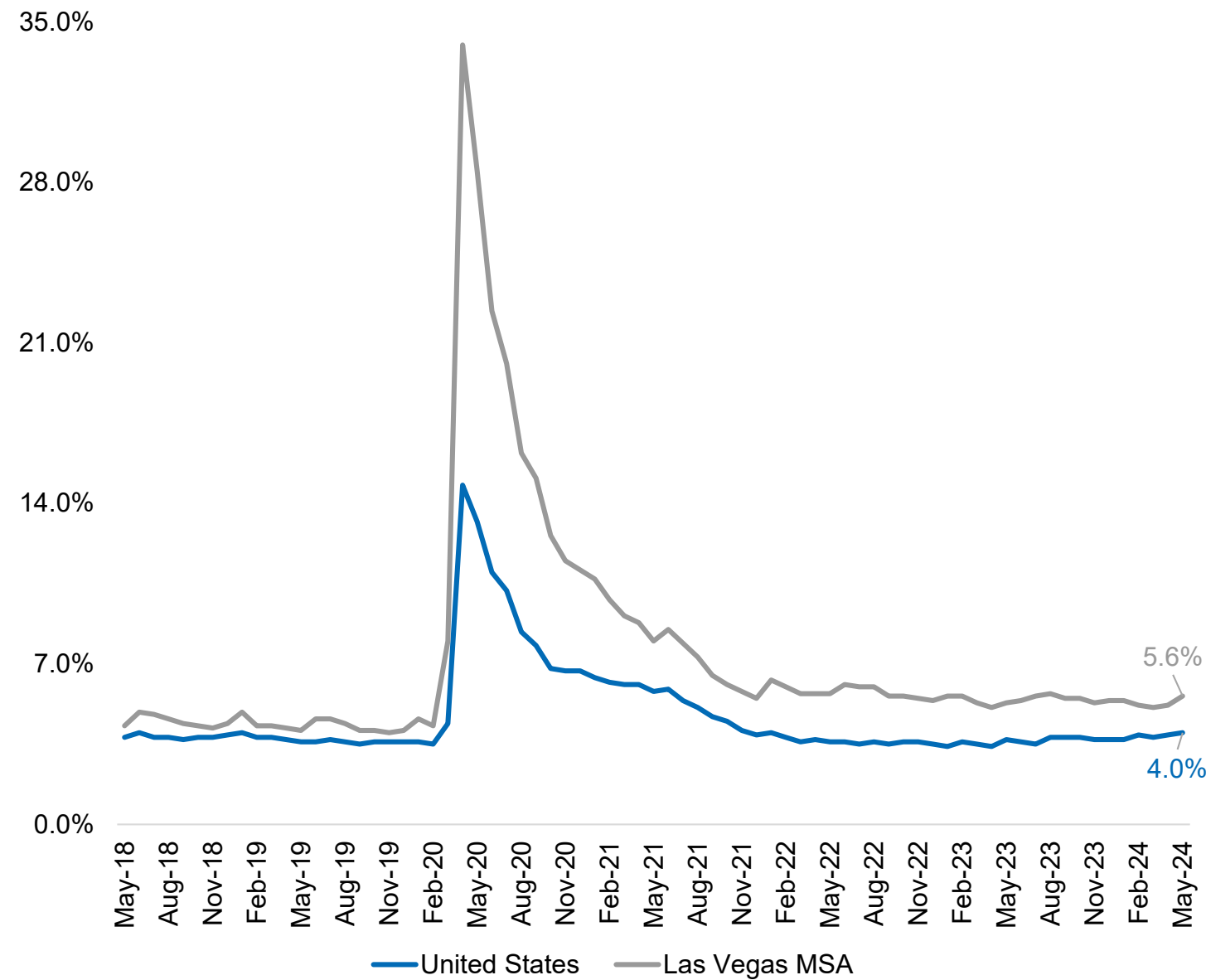
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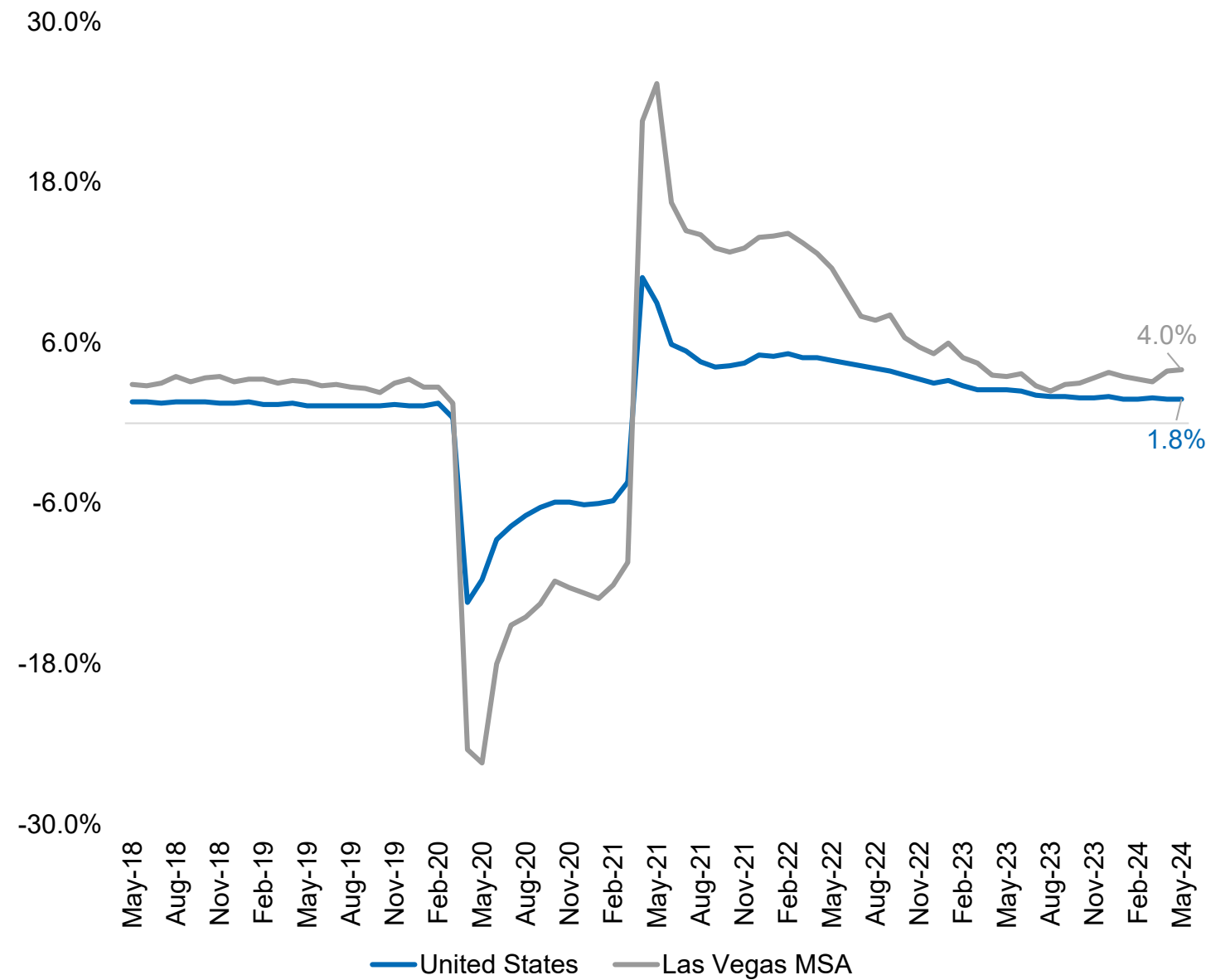
# Las Vegas Job Gains: Stronger than the Nation

Local nonfarm employment grew by 4.0% on an annual basis from May 2023 to May 2024, vastly exceeding the U.S.’ average. Much of this can be linked to local population growth, along with Nevada’s lower business costs and less regulation relative to the Southwest’s coastal markets.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



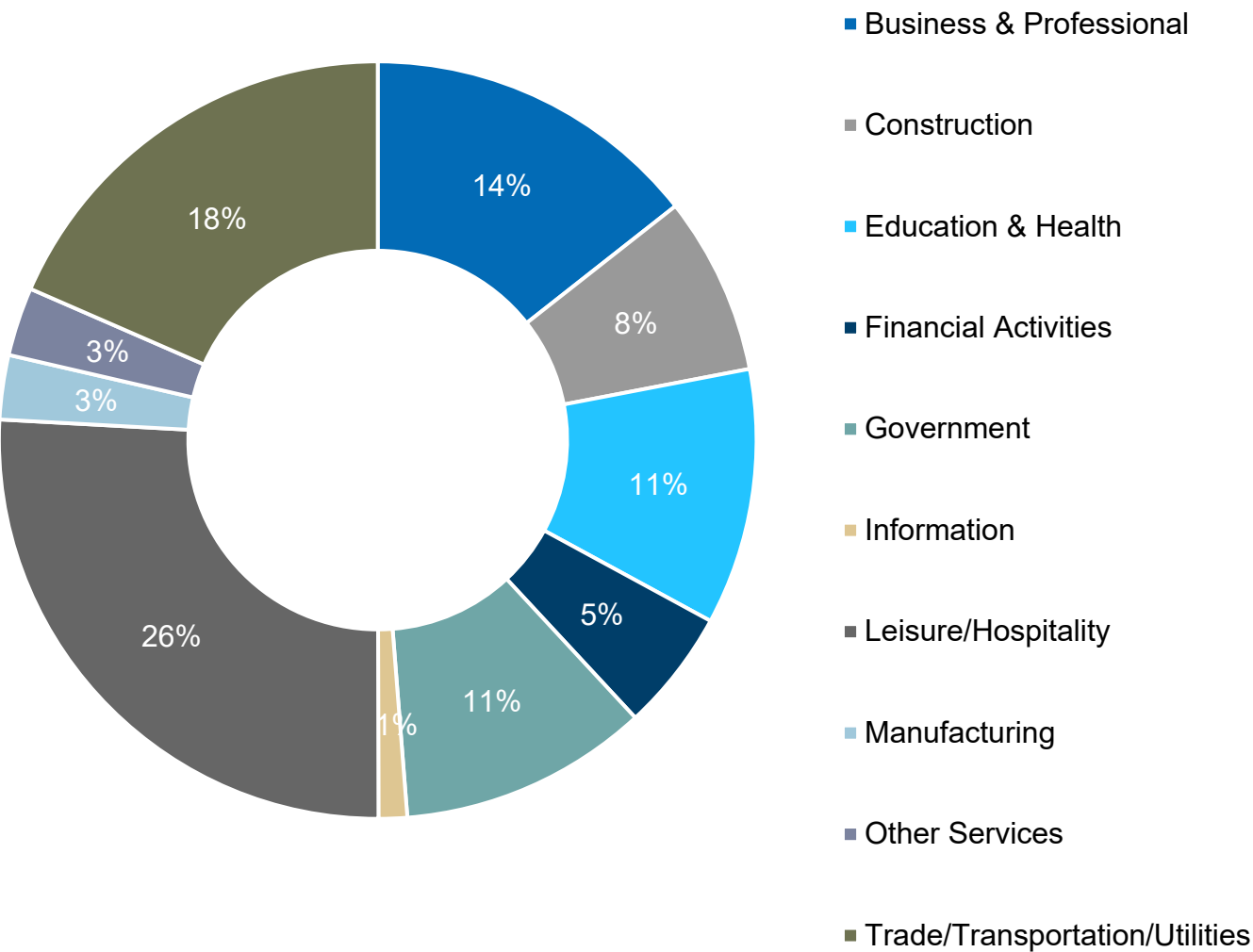
Source: U.S. Bureau of Labor Statistics, Las Vegas MSA  
Note: Las Vegas’ unemployment is historically higher than the U.S. average due to volatility in the tourism industry when the economy downcycles; hence, the 34.0% unemployment average at the start of the pandemic.



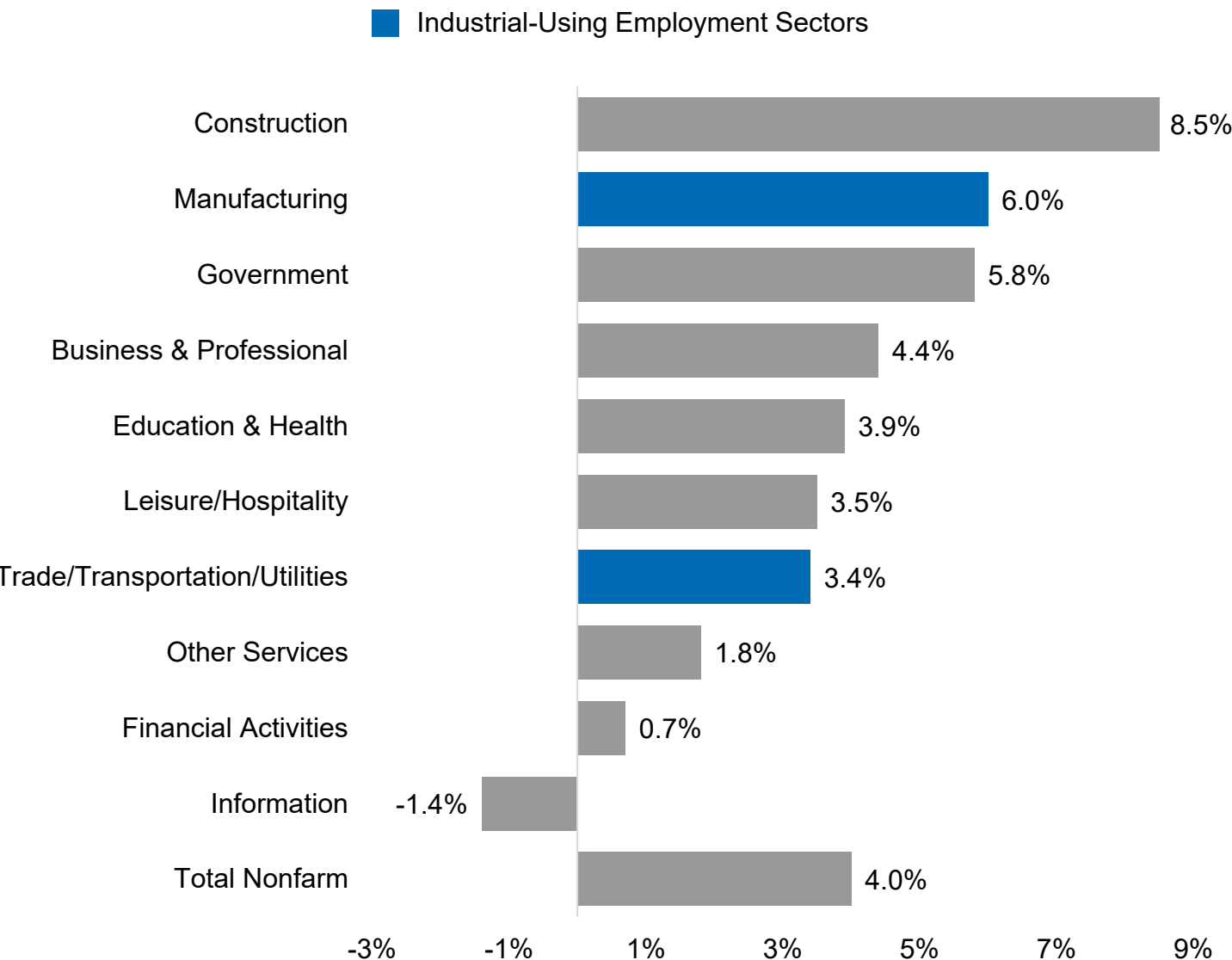
# A Growing Population is Driving Employment Growth in a Myriad of Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.9% of overall employment. Still dominant, but less so when considering the average was 32.7% in 2010, a gradual decrease that illustrates continued diversification within the local economy.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

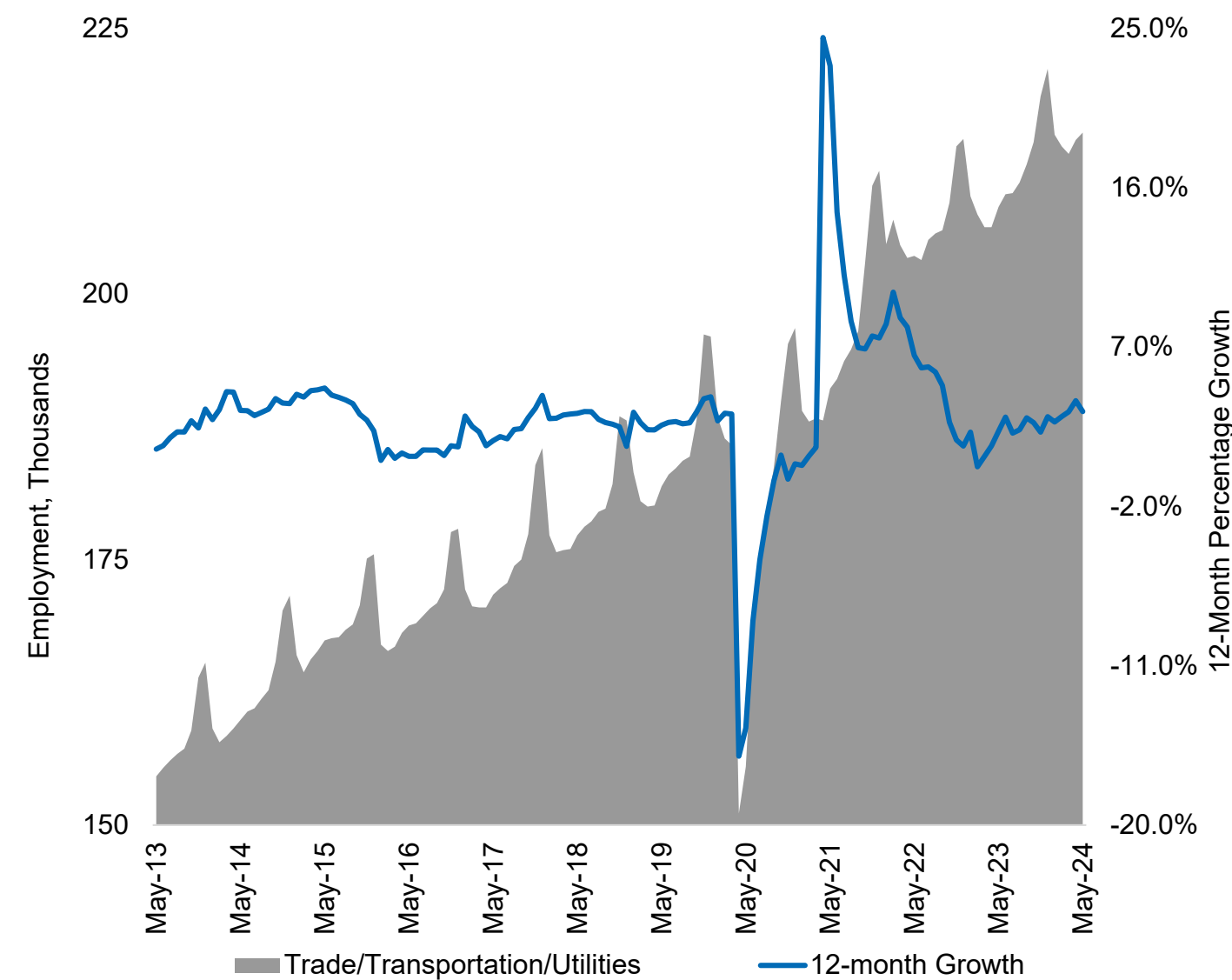


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

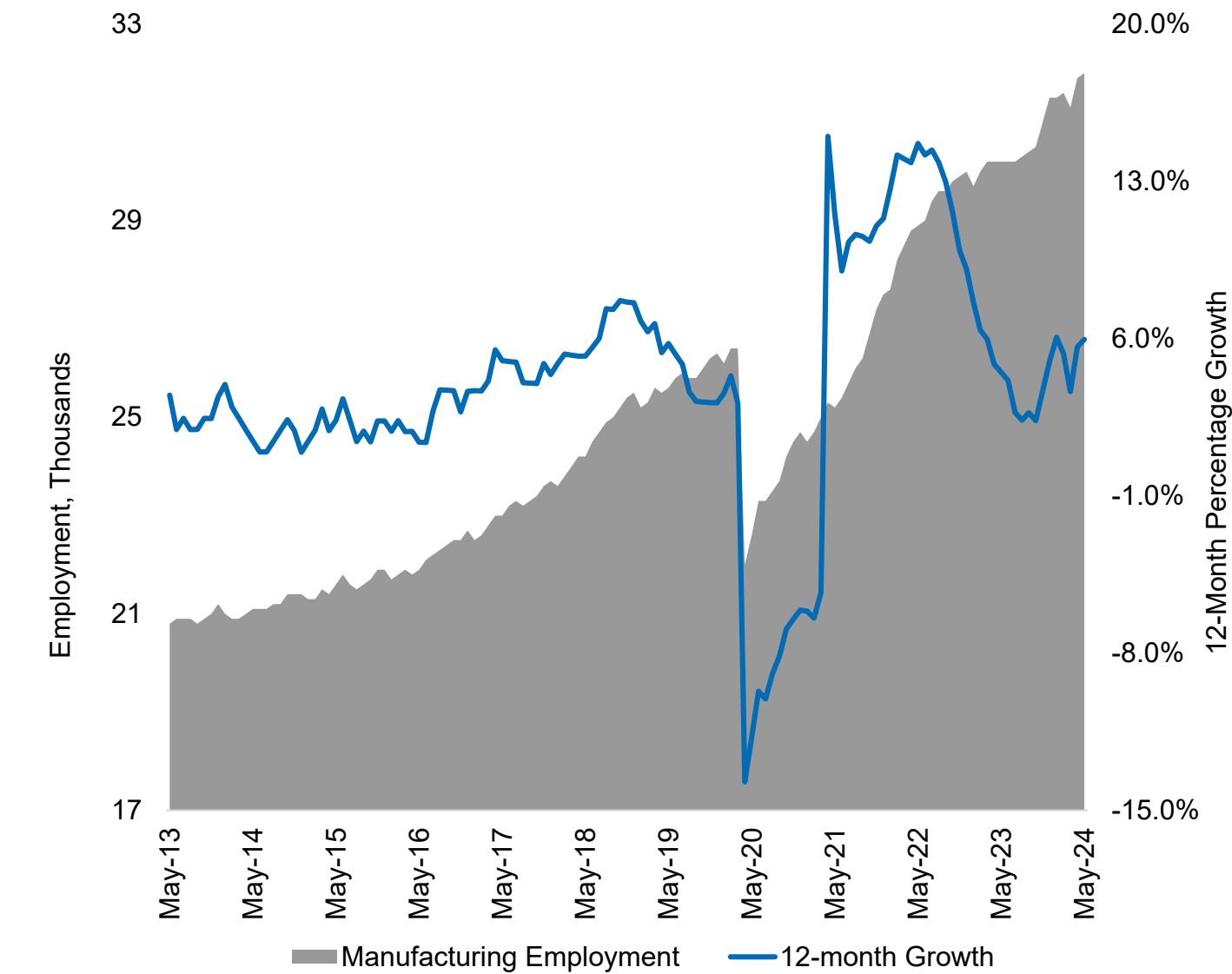
# Seasonal Volatility Aside, Industrial Employment is Stronger Than Ever

New to market entrants and prior expansions from existing companies account for trade/transportation/utilities employment growth. Job gains in manufacturing are reflective of Nevada’s business-friendly environment (e.g., a Right-to-Work state that does not have any corporate and personal income taxes).

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Las Vegas MSA



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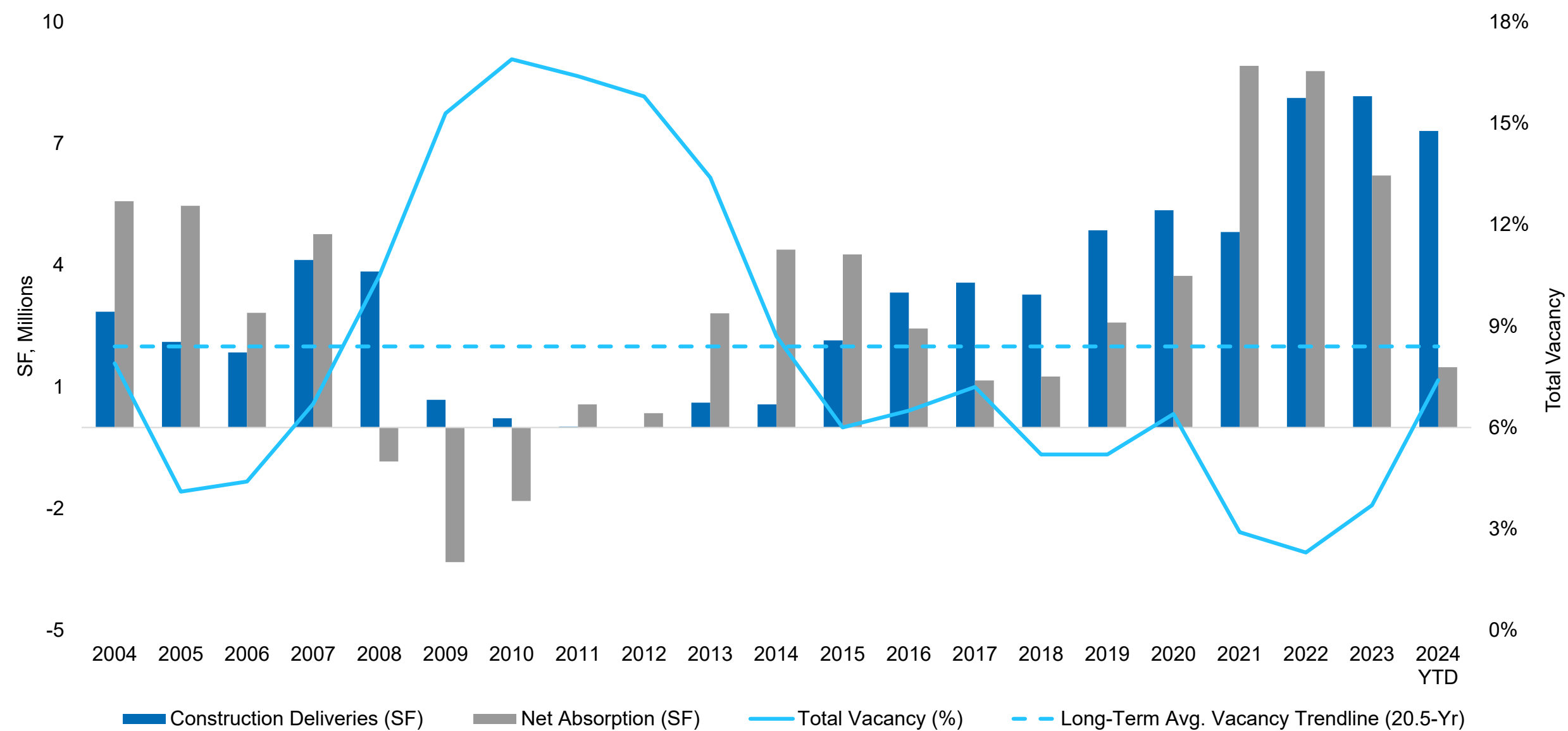
# Leasing Market Fundamentals



# Vacancy Rose After Construction Deliveries Were Met With Faint Net Absorption

This quarter, 2.0 MSF in net absorption gains were met with 4.2 MSF in construction deliveries, causing vacancy to rise to 7.4% On a year-to-date basis, net absorption totaled 1.4 MSF while new supply accounted for 7.3 MSF. A less-robust economy relative to 2021-2023, coupled with 11.6 MSF in under construction space, will lead to even higher vacancy as new supply delivers and continues to eclipse net absorption.

Historical Construction Deliveries, Net Absorption, and Vacancy

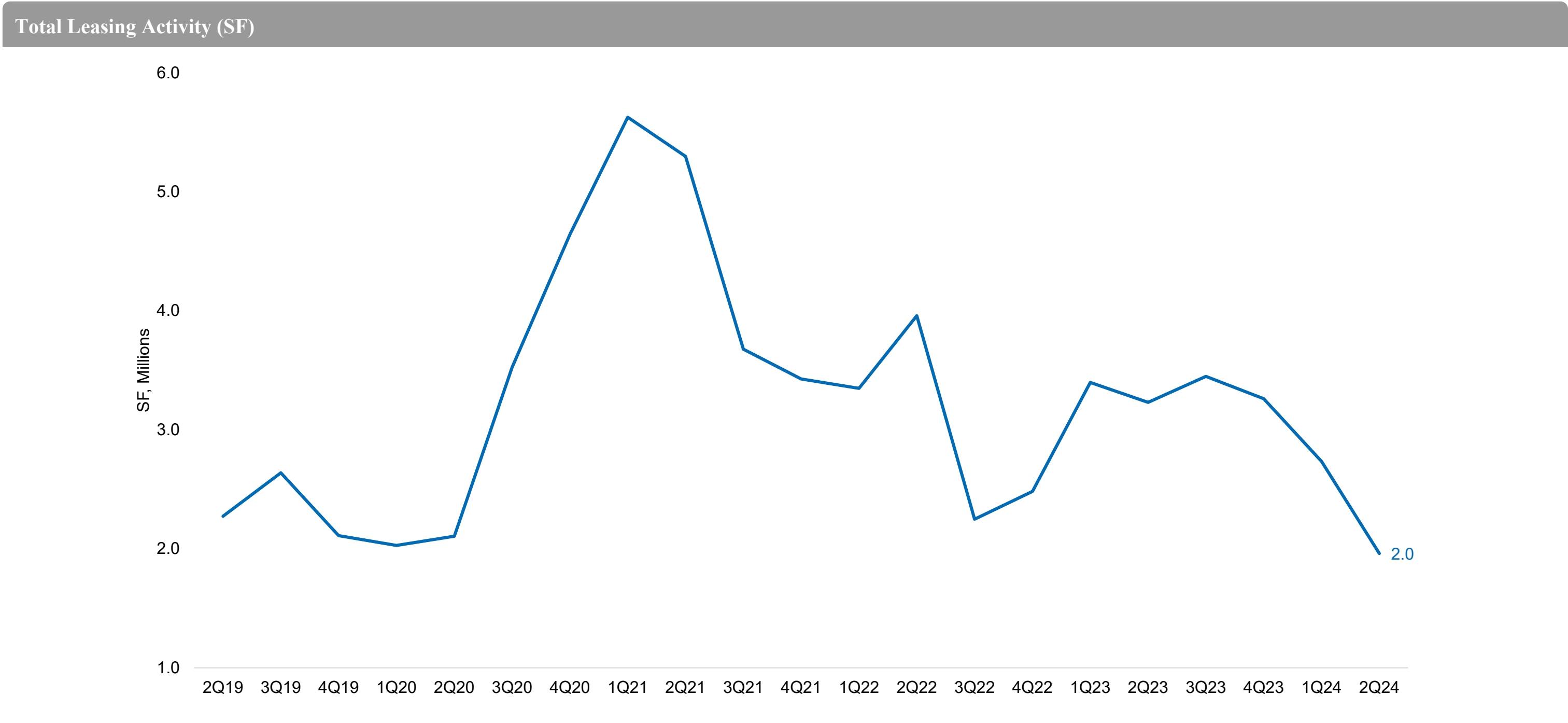


Source: Newmark Research



# Leasing Activity Was Sharply Down

Volume this quarter was on par with early 2020, a period of uncertainty when COVID-19 became known in the U.S. and a short-lived recession occurred. Leasing activity in future quarters is expected to be measured as occupiers focus on reducing costs in a still-high inflationary environment. Las Vegas’ strong population growth and lower occupancy and labor costs relative to Southern California’s markets, while still providing one-day truck service to those markets and their ports, favor long-term leasing fundamentals.

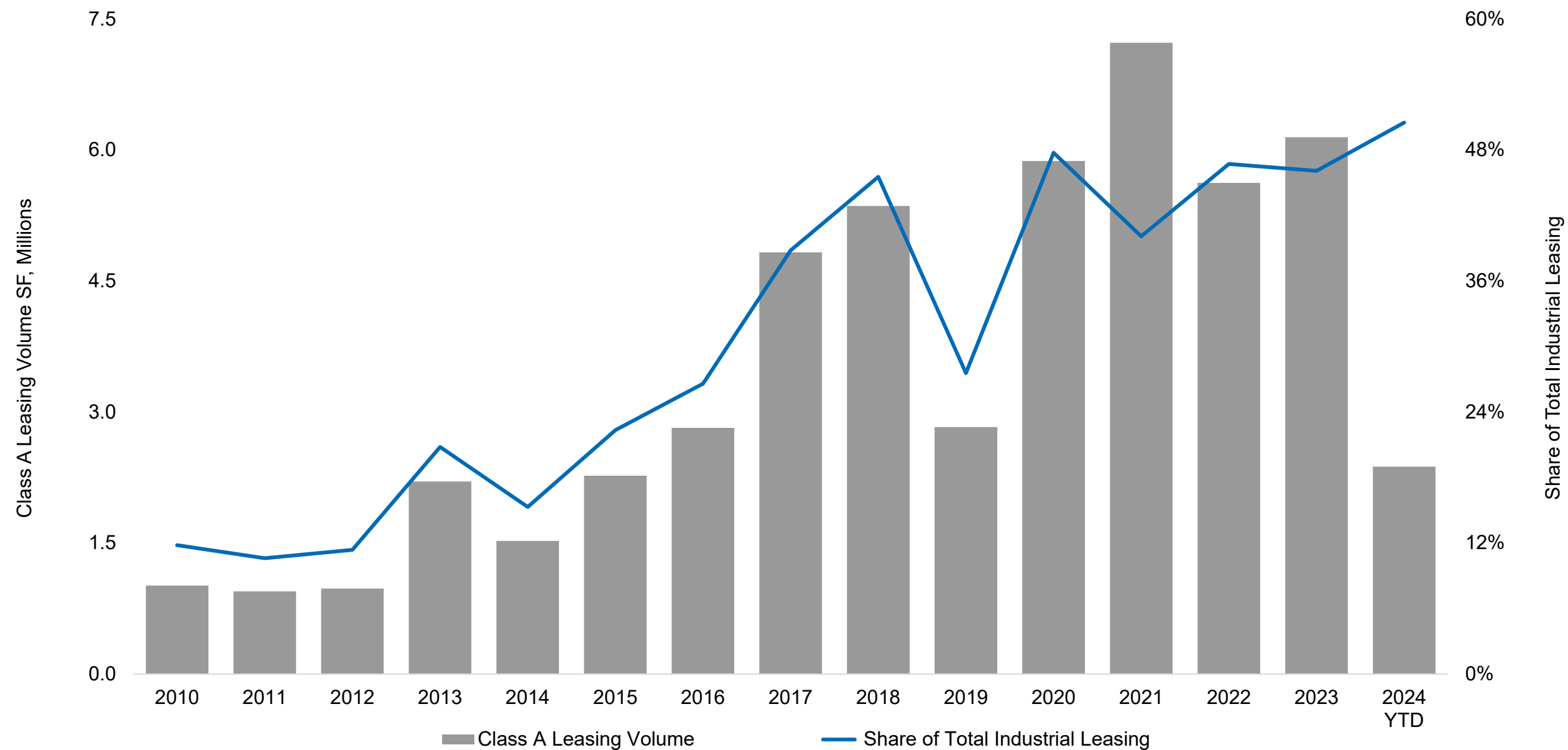


Source: Newmark Research, CoStar

# Class A Warehouse Leasing Above Long-Term Average

Las Vegas is a growth market and Class A leasing activity has shaped overall leasing dynamics in recent years. The only exception to the rule was 2019, a year when there was a dearth in available product.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



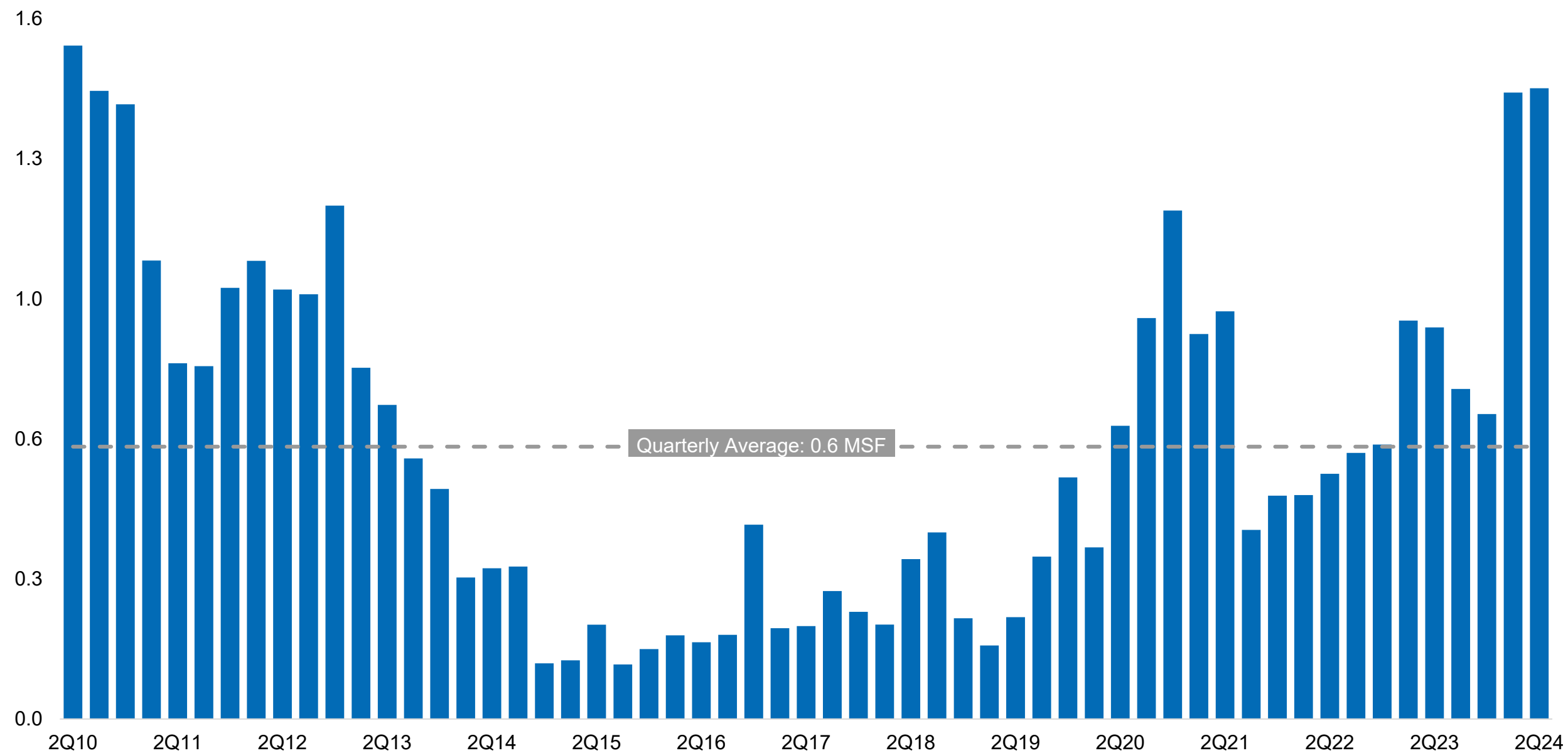
Source: Newmark Research, CoStar  
Note: Class A is defined as 100,000+ SF, 30'+ minimum interior ceiling height and constructed since 2000.



# Sublease Space (On Par With Late 2010) Was Flat This Quarter

Geodis Logistics (199,840 SF), Nutrition Corp (171,083 SF) and ShipMonk (76,035 SF) are a sampling of companies that have listed sublease space this year. The sublet pool will fluctuate in the quarters ahead as cost-cutting measures from some occupiers are counterbalanced with the progressive leasing of desirable sublet offerings.

Available Industrial Sublease Volume (MSF)

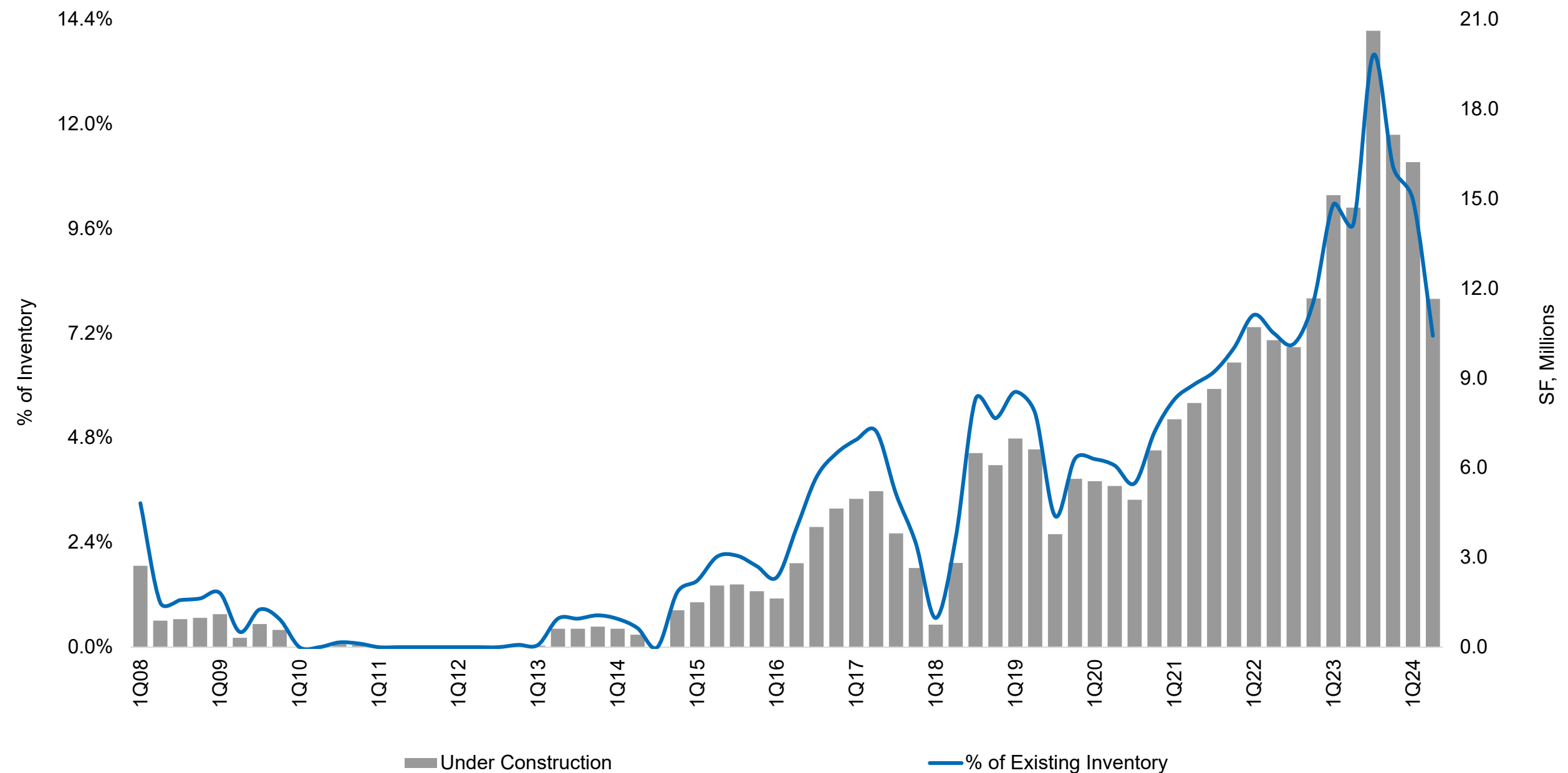


Source: Newmark Research

# Industrial Supply Pipeline Cools as Construction Starts Decrease

Rising vacancy, the number of deliveries expected over the near term and difficulty in sourcing construction debt are acting as barriers to new construction starts. Some developers are pausing new development or selling land positions amid the new environment. Slower construction starts pose a risk for potential supply constraints in 2025.

Industrial Under Construction and % of Existing Inventory



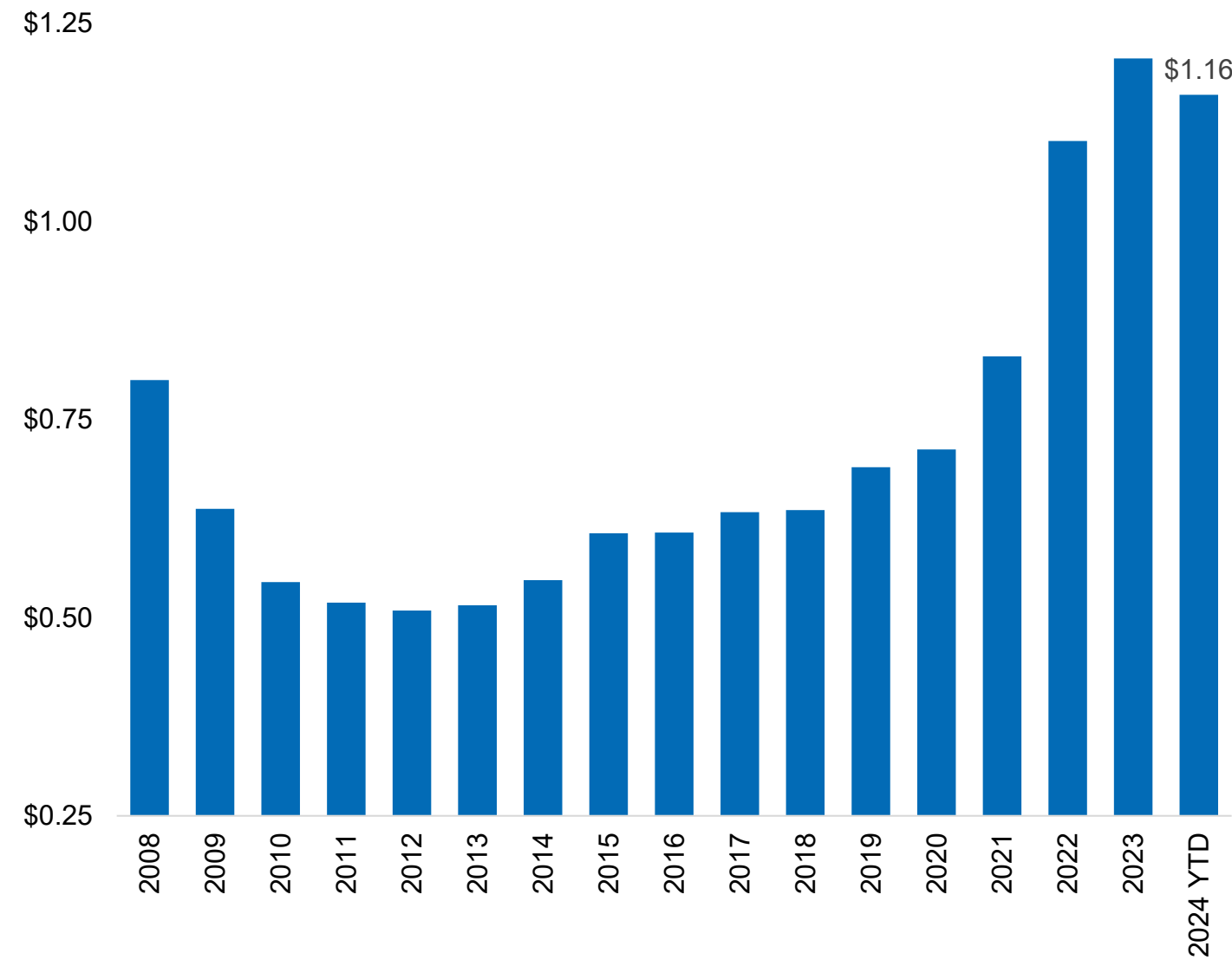
Source: Newmark Research



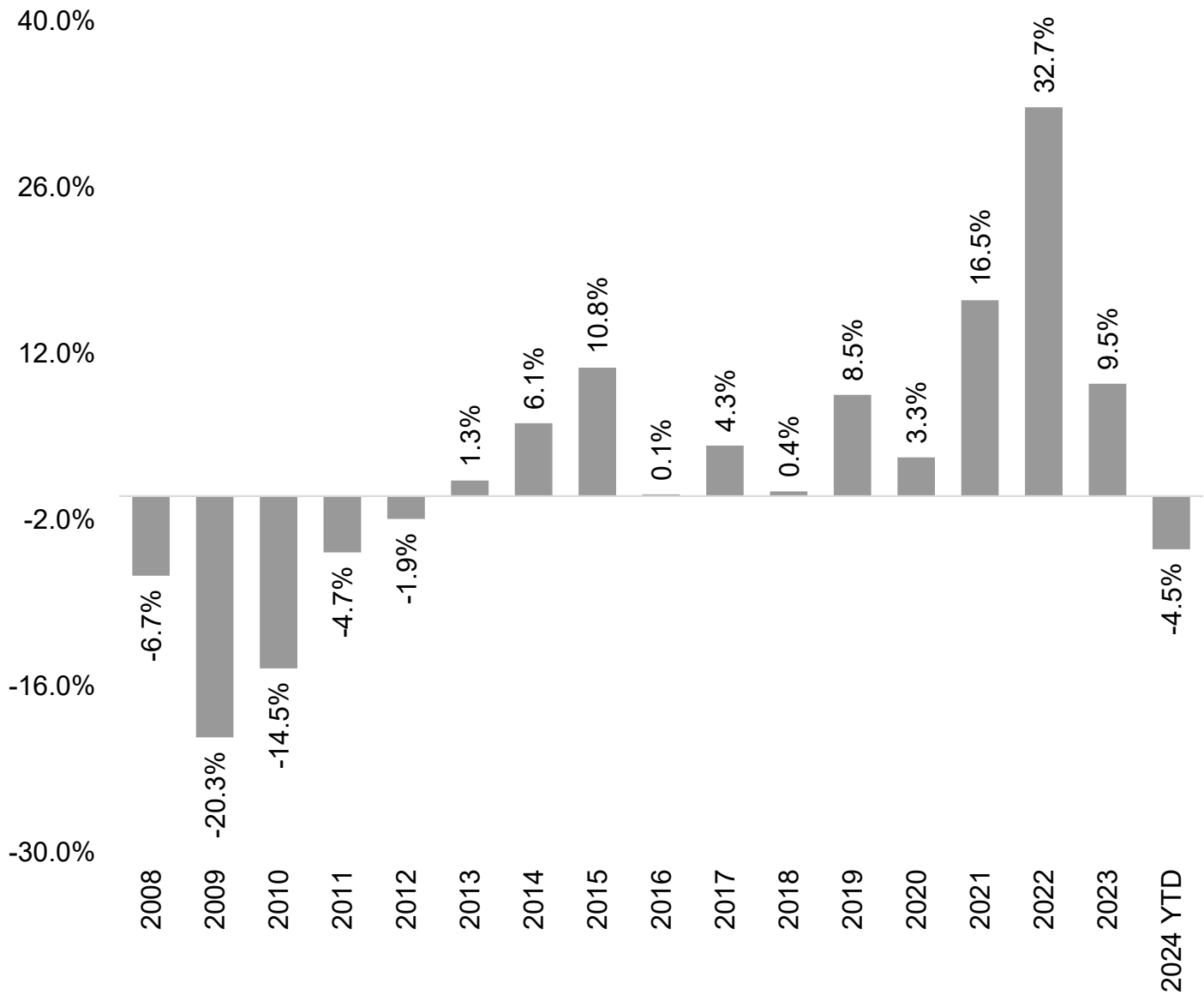
# Asking Rents are Levelling Off

Industrial average asking rents grew by 9.5% from 2022 to 2023, after historically strong rent growth in 2021 (+16.5%) and 2022 (+32.7%). Rent growth has stabilized for 100,000-SF-plus buildings, given the number of options that are available to tenants. Rents may see more pronounced decreases in the second half of 2024 as new construction delivers vacant.

Industrial Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

# Notable 2Q24 Lease Transactions

Leasing activity continues to be concentrated in modern-gen buildings, predominantly in the North Las Vegas submarket where 67.6% of the region’s under-construction pipeline is.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
The Pepsi Bottling Group	Silver State Commerce Center, Bldg. 7	North Las Vegas	Direct	172,424
The tenant will be the sole occupant of the building, which delivered earlier this year.				
Berry Global	6400 E Azure Ave	North Las Vegas	Direct	166,143
A 332,287-SF facility built this year; 166,144 SF remains available.				
Borderless Distribution	Windsor Commerce Park, Bldg. E	North Las Vegas	Pre-lease	114,400
The tenant will be the sole occupant of the building, which is expected to deliver next quarter.				
Reach Cooling Group	Matter Logistics @ North 15, Bldg. 1	North Las Vegas	Sublease	100,013
A newly constructed building in which The Tranzonic Companies leased 395,377 SF in mid-2023; Tranzonic later listed half of their space for sublease, which Reach Cooling Group took a portion of this quarter.				
Power Promotions, LLC	820 Wigwam Pky	East Henderson	Sublease	44,800
Another sublease in a newer (built in 2017) facility. The tenant is reportedly paying \$1.06/SF/Month for the starting rent.				



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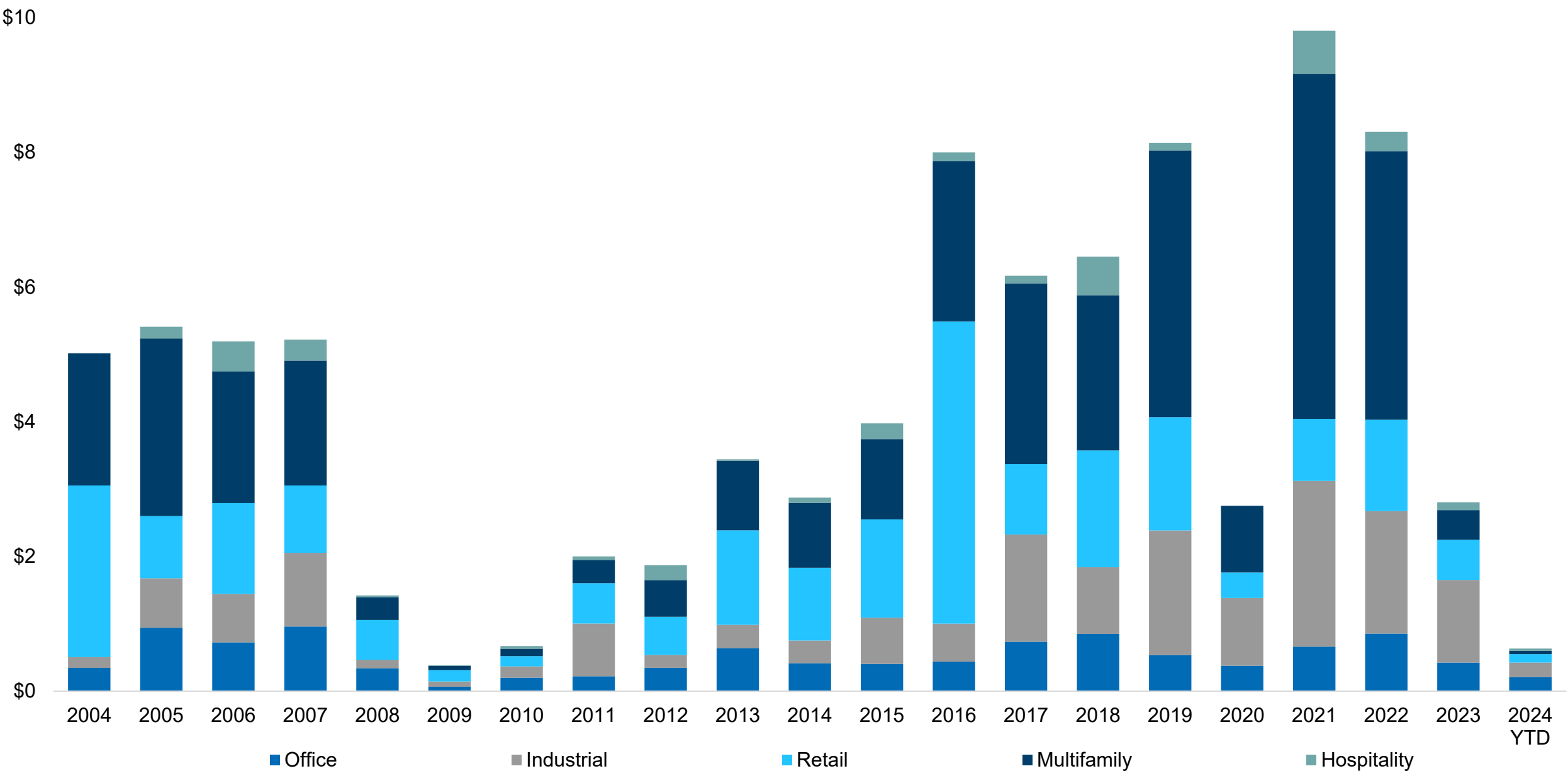
# Sales Activity



# Industrial Comprised 34% of Total Sales Volume in the First Half of 2024

Heated rent growth in recent years favor the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal.

Las Vegas: Sales Volume Across Commercial Property Segments (\$ in Billions)



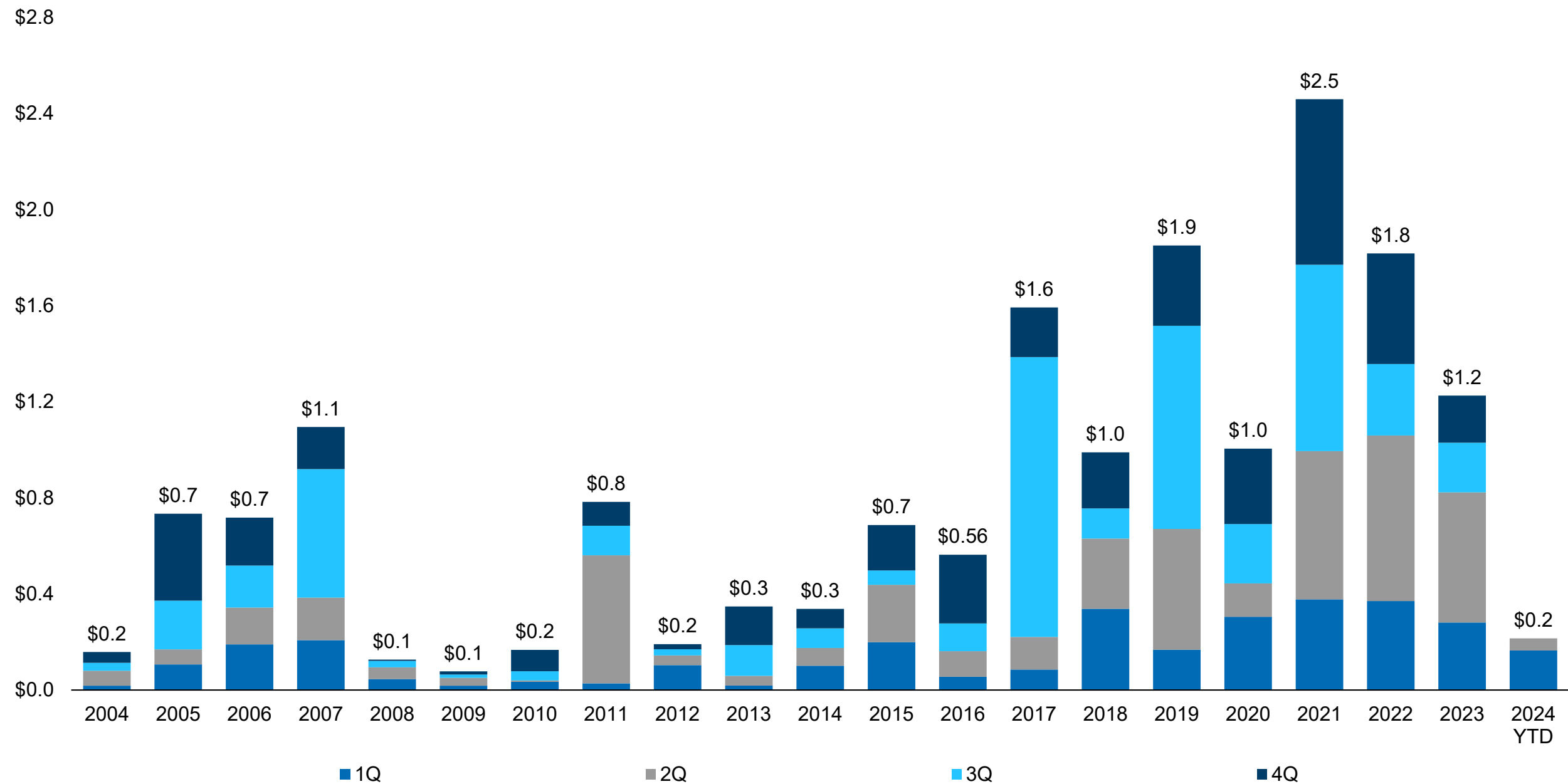
Source: Newmark Research, MSCI Real Capital Analytics  
Note: Preliminary data is cited for the second quarter of 2024.



# Industrial Sales Volume: Up Close

Industrial sales volume totaled \$215.3 million in the first half of 2024, down 73.8% from the same period in 2023. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 is crimping momentum, in addition to cooling leasing fundamentals. Both will likely add downward pressure to pricing.

Las Vegas: Industrial Sales Volume (\$ in Billions) | By Quarter



Source: Newmark Research, MSCI Real Capital Analytics  
Note: Preliminary data is cited for the second quarter of 2024.



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## Private and REIT/Listed Buyers Are Active



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# Appendix





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## Las Vegas Industrial Submarket Map and High-Level Statistics | 2Q24

A low-angle, upward-looking photograph of a modern building's exterior. The image shows a complex network of dark steel beams and supports forming a grid-like structure. Large glass panels are visible, reflecting the sky. The perspective creates a sense of height and architectural scale. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

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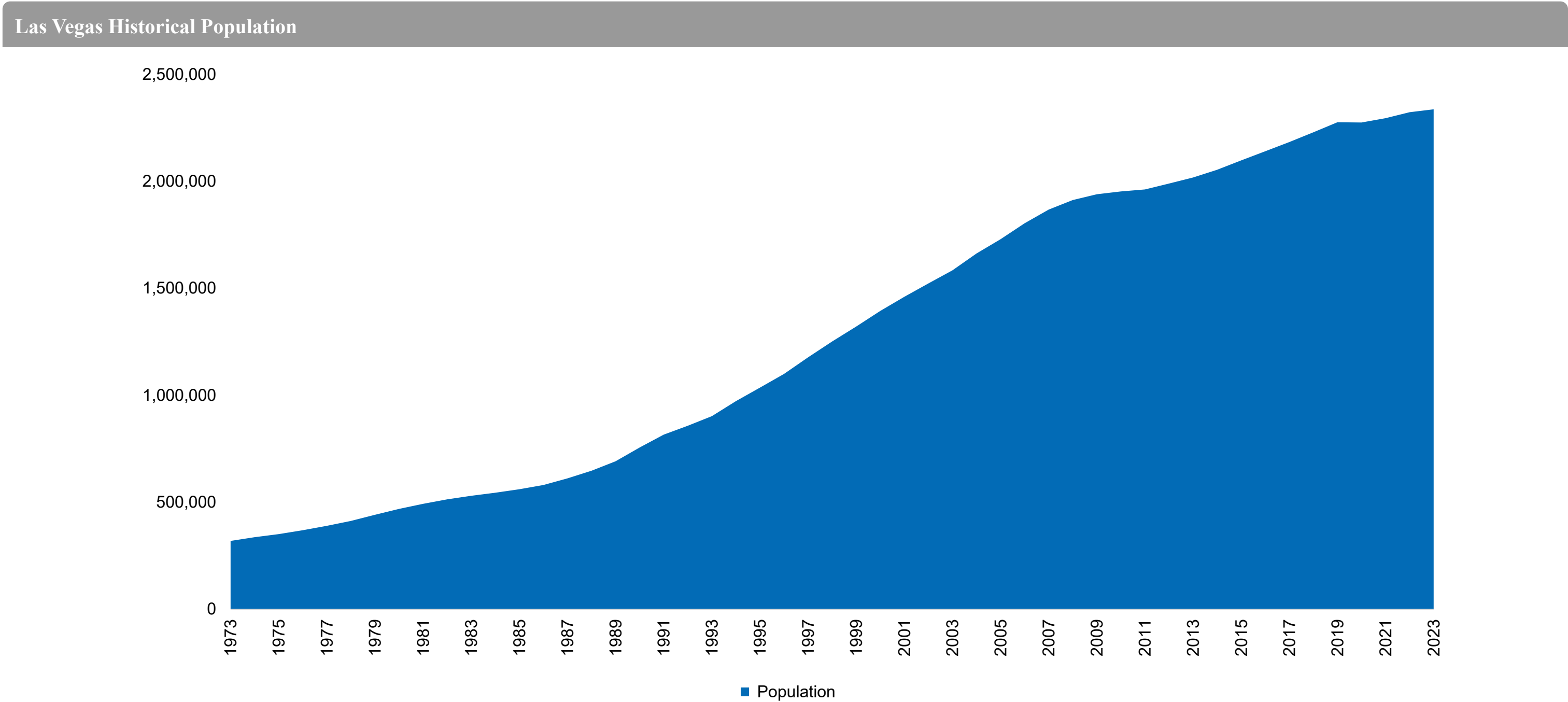


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# Metro’s Population Has Grown by 7.3x over Five Decades

A growing population favors demand for warehouse space since more people equates to more consumers to clothe, feed and entertain. A larger residential base also means more prospective workers for the region’s warehouses and manufacturing centers.

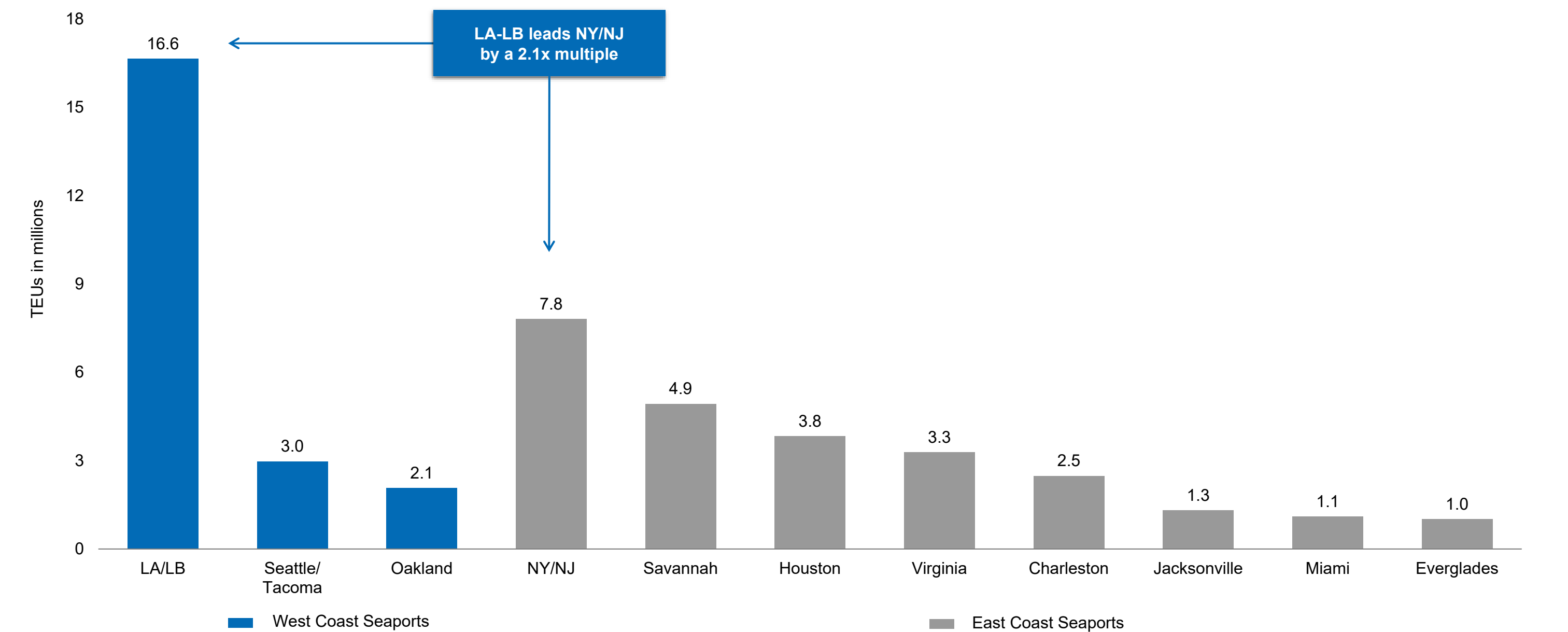


Source: Newmark Research, U.S. Census Bureau, Moody's Analytics

# Los Angeles-Long Beach is the Nation's Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation's major population centers.

Major U.S. Seaports: 2023 TEU Volume (All Containers: Loaded and Empty)



Source: Newmark Research, Individual Seaports



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Access to Large Populations and Lower Costs of Doing Business Favor Las Vegas

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